

**Review of the Effectiveness of Criminal
Investigation's Strategic Planning Process**

June 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 7, 2001

MEMORANDUM FOR CHIEF, CRIMINAL INVESTIGATION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Review of the Effectiveness of Criminal
Investigation's Strategic Planning Process

This report presents the results of our review of the Criminal Investigation (CI) function's Strategic Planning Process. The objective of the review was to assess the CI function's ability to properly refocus its resources into legal source tax-related areas.

In summary, we recommended that the CI function take additional steps to determine whether resources are being refocused to investigate legal source tax violations. Specifically, the CI function needs to develop and communicate a detailed compliance strategy, establish an effective process to measure the shift of resources to investigate legal source tax violations, and develop a methodology to ensure that resources are effectively allocated. Implementation of these recommendations will assist the CI function in accomplishing its overall mission. CI management agreed to the recommendations presented in this report and has developed an implementation schedule for its corrective actions. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Review of the Effectiveness of Criminal Investigation's
Strategic Planning Process**

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Review of the Effectiveness of Criminal Investigation's Strategic Planning Process

Executive Summary

In July 1998, the Internal Revenue Service (IRS) Commissioner appointed Judge William Webster to direct an independent review of the Criminal Investigation (CI) function. Judge Webster assembled a task force to assess the CI function's effectiveness in accomplishing its mission as the IRS' criminal law enforcement arm. The CI function is the only federal law enforcement agency with the authority to investigate criminal tax violations. The task force determined that the CI function had drifted from its primary mission of investigating tax crimes affecting tax compliance and emphasized the need for the CI function to refocus its resources to investigate tax-related crimes.

The overall objective of our review was to assess the CI function's ability to properly refocus its resources into legal source tax-related areas.

Results

The CI function recognizes the need to establish an effective process to measure the shift in resources to legal source¹ tax violations and develop a methodology for effectively allocating resources. The CI function has taken steps to refocus its resources into investigations involving legal sources of income. However, the full impact of these initiatives will not be realized for some time. Our review showed that the CI function had not developed and communicated a detailed compliance strategy, had not established an effective process to measure the shift in resources to legal source tax violations, and had not developed a methodology to ensure that resources are effectively allocated.

The Criminal Investigation Function Needs to Develop and Communicate a Detailed Compliance Strategy Based Upon the Criminal Investigation Strategy and Program Plan

The CI function is not operating within the framework of a current functional compliance strategy as envisioned by the Webster Report.² This condition exists because the CI function did not revise its Interim Compliance Strategy for Fiscal Year (FY) 2001. The CI function is now required to develop a Strategy and Program Plan (SPP) to be aligned with the Strategic Planning and Budgeting Process. For FY 2000, the CI function had an

¹ Legal source investigations involve tax evasion occurring in a broad range of legal industries and occupations.

² *Review of the Internal Revenue Service's Criminal Investigation Division*, also known as the Webster Report.

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Interim Compliance Strategy that defined the key investigative emphasis areas and provided guidelines for the identification, development, and investigation of cases in each program area. The CI function should develop and communicate the FY 2001 goals and priorities as defined in the CI SPP. Without a detailed compliance strategy in place, the CI function cannot determine whether its tax enforcement mission will be accomplished.

The Criminal Investigation Function Needs to Establish an Effective Process to Measure the Shift in Resources to Legal Source Tax Violations

The CI function's current practices do not provide an effective means for measuring the success of shifting resources to legal source tax violations. Sound management practices dictate that the CI function use all appropriate information to determine the effectiveness of its program goals. Indicators used by CI management did not show conclusive evidence that the CI function was shifting resources to investigate more legal source tax violations because they relied on summary data at the national level. CI officials used either case initiations or direct investigative time (DIT) as indicators to determine if they were undergoing a successful shift in resources nationwide. However, our analysis of the Criminal Investigation Management Information System (CIMIS) data provided by the CI function showed that the indicators were not effective in measuring the shift in resources to investigate more legal source tax violations. In fact, our analysis showed very little change in the DIT among the field offices and showed that the number of cases initiated was ineffective in measuring any shift in resources. Without a combined analysis of field office process indicators, the CI function will be unable to determine whether it is refocusing its efforts to investigate legal source tax violations.

The Criminal Investigation Function Needs to Determine a Methodology for Effectively Allocating Resources

The CI function did not conduct a workload analysis to determine the optimal number, placement, and size of field groups. This condition existed because the CI modernization design teams were unable to evaluate the effectiveness of the CI function's field structure to accomplish its tax enforcement mission and to implement the IRS Commissioner's mandate to shift resources to legal source tax violations. Consequently, the CI function has been staffing the organization without a workload analysis of the 35 field offices to ensure proper placement of resources. Placing resources within an organization without a workload analysis could jeopardize the CI function's primary mission, which is to investigate tax crimes related to legally earned income.

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Summary of Recommendations

The CI function needs to develop and communicate a detailed compliance strategy that will assure resources are being allocated to investigate more legal source tax violations. Also, an effective process needs to be established to ensure that management can adequately assess the progress of program initiatives, and a methodology needs to be developed to determine where resources should be allocated.

Management's Response: To effectively communicate a detailed compliance strategy, the Director of Strategy will issue the Annual Compliance Guidance (ACG) beginning with FY 2002 and the Internal Revenue Manual will require the issuance of the ACG by October 1 of each fiscal year. The ACG will be distributed and discussed at the bi-annual Special Agent-in-Charge meetings, posted on the CI homepage, and announced to all CI employees on the weekly CI bulletin. Since the staffing of the Planning and Strategy Sections has been completed, a senior analyst is assigned to monitor CIMIS data on a monthly basis. The Directors of Planning, Strategy, and Research will meet with their respective staffs each fiscal year and, based on the results, assess the appropriateness of the diagnostic indicators used during the fiscal year. The CI function entered into a project agreement with the Office of Program Evaluation and Risk Analysis (OPERA) to develop workload and attrition models. A beta version of the models was completed in May 2001, and a contractor will test and validate the system during the fourth quarter. The workload model developed by the OPERA will be used to continuously validate current resource distribution; however, due to cost considerations, the CI function can only remedy inequities by distributing recently hired special agents.

Management's complete response to the draft report is included as Appendix IV.

Review of the Effectiveness of Criminal Investigation's Strategic Planning Process

Objective and Scope

Our overall objective was to assess the CI function's ability to properly refocus its resources into legal source tax-related areas.

Our overall objective was to assess the Criminal Investigation (CI) function's ability to properly refocus its resources into legal source tax-related areas. In particular, we wanted to determine the success of its Interim Compliance Strategy to commit resources to investigate tax violations involving legal sources of income. We also evaluated the function's role in the development and implementation of the Internal Revenue Service's (IRS) National Compliance Strategy and determined whether the CI functional compliance strategy was aligned with the National Compliance Strategy.

To accomplish our objective, we analyzed data maintained in the Criminal Investigation Management Information System (CIMIS). We were unable to test the reliability of the CIMIS because the CIMIS database contains sensitive investigative information. We also interviewed CI executives and managers in the Headquarters office and area offices. Audit work was performed primarily in the National Headquarters from September 2000 through January 2001 and, except for the scope limitation involving the CIMIS database, the audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

The CI function's mission is to serve the American public by investigating potential criminal violations of the I.R.C.

The CI function's mission is to serve the American public by investigating potential criminal violations of the Internal Revenue Code (I.R.C.) and related financial crimes in a manner that fosters confidence in the tax system and compliance with the law.

In July 1998, the IRS Commissioner appointed Judge William Webster to direct an independent review of the

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The task force determined that the CI function had drifted from its primary mission and further emphasized the need to refocus its resources towards tax crimes affecting compliance.

The Strategic Planning and Budgeting Process will be used to develop the National Compliance Strategy.

CI function. Judge Webster assembled a task force to assess the CI function's effectiveness in accomplishing its mission as the IRS' criminal law enforcement arm. The task force issued a report in April 1999 entitled, *Review of the Internal Revenue Service's Criminal Investigation Division*.

The report recognized the CI function as the only federal law enforcement agency with the authority to investigate criminal tax violations. The task force determined that the CI function had drifted from its primary mission as a likely result of expanded jurisdiction to cover money laundering, currency reporting, and drug-related financial crimes. It further emphasized the need for the CI function to refocus its resources towards tax crimes affecting compliance.

The task force concluded, and the IRS Commissioner agreed, that the CI function would have a principal role in assisting the IRS with establishing an overall National Compliance Strategy. The report also recommended the development of a functional compliance strategy in alignment with the National Compliance Strategy. Until a National Compliance Strategy could be developed, the CI function developed an Interim Compliance Strategy for Fiscal Year (FY) 2000. The objective of the interim strategy was to help identify, develop, and investigate cases that foster confidence in the tax system and compliance with the law. Legal source tax crime investigations were to account for a major percentage of the CI function's nationwide criminal inventory for FY 2000.

The initial methodology for delivering the National Compliance Strategy was replaced when the IRS decided to use the Strategic Planning and Budgeting Process as the basis for its development for FY 2001. The Strategic Planning and Budgeting Process will establish the priorities for each operating division and the compliance linkages among the divisions and functions.

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Results

The CI function has taken steps to refocus its resources into investigations involving legal sources of income.

The CI function recognizes the need to establish an effective process to measure the shift in resources to legal source tax¹ violations and develop a methodology for effectively allocating resources. The CI function has taken steps to refocus its resources into investigations involving legal sources of income. However, the full impact of these initiatives will not be realized for some time. If it is to be successful in implementing the primary tax enforcement mission, the CI function needs to:

- Develop and communicate a detailed compliance strategy based upon the CI Strategy and Program Plan.
- Establish an effective process to measure the shift in resources to legal source tax violations.
- Develop a methodology for effectively allocating resources.

The Criminal Investigation Function Needs to Develop and Communicate a Detailed Compliance Strategy Based Upon the Criminal Investigation Strategy and Program Plan

The CI function is required to develop an SPP to be aligned with the Strategic Planning and Budgeting Process.

The CI function is not operating within the framework of a current functional compliance strategy as envisioned by the Webster Report. This condition existed because the CI function did not revise its Interim Compliance Strategy for FY 2001. The CI function is now required to develop a Strategy and Program Plan (SPP) to be aligned with the Strategic Planning and Budgeting Process. It is important that the CI function develop a detailed compliance strategy based upon the

¹ Legal source investigations involve tax evasion in a broad range of legal industries and occupations.

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The CI function developed an Interim Compliance Strategy for FY 2000 to provide guidance until the IRS could develop a National Compliance Strategy.

CI SPP to communicate the FY 2001 goals and priorities as defined in its SPP. This detailed compliance strategy needs to establish accountability for the initiatives and foster coordination among the field offices to ensure a successful shift in resources to investigate more legal source tax violations.

The CI function developed an Interim Compliance Strategy for FY 2000 to provide guidance until the IRS could develop a National Compliance Strategy. The CI Interim Compliance Strategy is comprised of three interdependent programs: Legal Source Tax Crimes, Illegal Source Financial Crimes, and Narcotics-Related Financial Crimes.² The strategy defines the key investigative emphasis areas for FY 2000 and provides guidelines for the identification, development, and investigation of cases in each program area. It was not possible to coordinate the strategy with the other operating functions since these functions were not operational. One of the goals of the Interim Compliance Strategy was to efficiently direct the CI resources to accomplish the IRS tax mission. The strategy was to be revised and reissued each fiscal year. However, the CI function chose to issue the SPP instead of revising the Interim Compliance Strategy. Traditionally, the CI function used program letters to communicate the revised major emphasis areas and emerging issues to its field offices. We believe a more formalized process is needed to effectively communicate the CI function's SPP to the field offices.

² Legal Source investigations involve tax evasion occurring in a broad range of legal industries and occupations. Illegal Source investigations involve the most significant illegal source tax violations, currency and money-laundering offenses, and tracing perpetrator's assets for forfeiture purposes. Narcotics-Related investigations involve unreported drug proceeds involving a wide range of professionals and occupations.

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Without a current detailed compliance strategy, the CI function has no means for determining whether the program will accomplish its mission.

In the absence of communicating a detailed compliance strategy aligned with the SPP, the CI function may not be assured that resources are being properly allocated. Also, without a current detailed compliance strategy in place, the CI function has no means for determining whether the program will accomplish its primary mission of investigating tax-related violations of the I.R.C.

Recommendations

The CI function should immediately implement a current detailed compliance strategy.

The CI function should immediately implement a current detailed compliance strategy that will provide some assurance that initiatives are based on the intent of its tax enforcement mission. Specifically, we recommend:

1. The Office for the Director of Strategy develop a detailed compliance strategy in alignment with the CI SPP. This compliance strategy should establish accountability within the CI function and foster coordination among IRS divisions.

Management's Response: CI management agreed with our recommendation. The CI function will issue the Annual Compliance Guidance (ACG) on an annual basis beginning with FY 2002. Also, the Internal Revenue Manual (IRM) will require the issuance of the ACG by October 1 of each fiscal year.

2. The Office for the Director of Strategy communicate the detailed compliance strategy in a form that will expedite the process of informing the CI personnel of the intent and direction of the organization.

Management's Response: CI management agreed with our recommendation. The CI function will issue the ACG in support of the SPP by October 1 of each fiscal year. The ACG will be distributed and discussed at the bi-annual Special Agent-In-Charge (SAC) meetings, posted on the CI homepage, and announced to all CI employees on the weekly CI Bulletin. Also, the IRM will require the issuance and communication of the ACG by October 1 of each fiscal year.

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The Criminal Investigation Function Needs to Establish an Effective Process to Measure the Shift in Resources to Legal Source Tax Violations

Indicators did not show conclusive evidence that the CI function was making the transition to shift resources.

The CI function's current practices do not provide an effective means for measuring the success of shifting resources to legal source tax violations. This condition exists because the CI function has not developed effective processes to monitor the progress of shifting resources to legal source investigations. Indicators used by CI management to determine the success of this initiative did not show conclusive evidence that the CI function was making the transition to shift resources because they relied on summary data at the national level. CI officials used either case initiations or direct investigative time (DIT) as indicators to determine if they were undergoing a shift in resources nationwide. As a result, CI officials did not have sufficient information to determine if the shift in focus was actually occurring. In the absence of any analysis by the CI function to determine results at the individual field offices, we performed our own analysis.

The DIT did not change proportionally to the number of investigations initiated in all program areas.

The CIMIS data provided by the CI function showed that its indicators were ineffective in measuring its efforts to shift the emphasis to investigating more legal source tax violations. For instance, we determined that the DIT did not change proportionally to the number of investigations initiated at the field office level. In fact, we concluded that, within the Legal program, there was very little change in the DIT among the field offices.³

The number of case initiations was not an effective measure since there were significant percentage changes in only a small number of offices.

Our analysis of the inventories with respect to case initiations was based on the percentage changes in cases initiated from FY 1999 to FY 2000. Based on this analysis, we concluded that case initiations was not an effective measure since there were significant percentage changes in only a small number of offices,

³ The average percentage change in DIT spent on Legal program cases for all 35 offices was less than 1 percent.

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thereby causing the national results to be skewed. For example, the Legal program inventory increased in 3 offices by 188 percent, 163 percent, and 113 percent.⁴ The Director of Field Operations representing two of the field offices and a SAC could not provide specific explanations for the cause of the significant increases in inventories.

When the statistics from these three offices were merged with the data from other offices, the national statistics on program inventories indicated that the decline in investigations initiated for illegal source income and narcotics demonstrated that the CI function was successfully shifting its resources to investigating legal source tax violations.

Evaluating the success of shifting resources based on national program statistics can be misleading.

However, our analysis showed that the outcomes were considerably different after adjusting the national statistics for the bias created by the three offices with extraordinary increases in the number of legal source cases initiated. The effect that unusually large changes in a few offices have on summary information demonstrates how evaluating the shifting of resources based on national program statistics can be misleading.

The results of our analysis are illustrated in the following table:

Number of National Investigations Initiated

	FY 1999	FY 2000	CI's Percent Change	Adjusted FY 2000	TIGTA's Percent Change
Legal	1,273	1,254	< 1 >	1,167	< 8 >
Illegal	1,190	1,009	< 15 >	1,161	< 2 >
Narcotics	1,489	1,109	< 26 >	1,341	< 10 >

Data Source - CIMIS database as of September 30, 2000.

⁴ The three offices where these percentage increases occurred were: St. Paul, Tampa, and New Orleans, respectively.

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The CI function concurred with our determination that additional actions were needed to measure the progress of its Legal program initiatives.

A more in-depth analysis of the root causes for the fluctuations in management information system data would have placed the CI officials in a better position to make informed decisions regarding program accomplishments. Sound management practices require that the CI function use all appropriate information to determine the effectiveness of its program goals. Without a combined analysis of field office process indicators, the CI function will be unable to determine whether it is refocusing its efforts to investigate legal source tax violations.

The CI function concurred with our determination that additional actions were needed to measure the progress of its Legal program initiatives. The CI function management team has begun to take steps that should provide meaningful information about the progress of this program.

Recommendations

We recommend that the CI function develop an effective process to ensure its managers can adequately assess the progress of program initiatives. Specifically, we recommend:

3. The Office for the Director of Strategy continuously monitor CIMIS information to identify trends in inventory over some specified period of time. The results of the CIMIS data analysis should be used to identify offices for inquiry to determine the reasons for any unusual shifts in inventory.

Management's Response: CI management agreed with our recommendation. Since the staffing of the Planning and Strategy Sections has been completed, a senior analyst is assigned to monitor CIMIS data on a monthly basis.

4. The Office for the Director of Strategy periodically assess the effectiveness of the diagnostic tools and make appropriate adjustments when necessary to ensure that they are meeting CI management's expectations.

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Management's Response: CI management agreed with our recommendation. The Directors of Planning, Strategy, and Research will meet with their respective staffs each fiscal year and, based on the results, assess the appropriateness of the diagnostic indicators used during the fiscal year. A written certification will be made by January 1 each year as to the appropriateness of the diagnostic indicators, or corrective action will be recommended.

The Criminal Investigation Function Needs to Determine a Methodology for Effectively Allocating Resources

The CI function did not conduct a workload analysis to determine the optimal number, placement, and size of field groups.

The CI function did not conduct a workload analysis to determine the optimal number, placement, and size of field groups. The condition existed because the CI modernization design teams were unable to evaluate the effectiveness of the CI function's field structure to accomplish its tax enforcement mission and to implement the IRS Commissioner's mandate to shift resources to legal source tax violations.

Consequently, the CI function has been staffing the organization in the absence of a workload analysis of its 35 field offices to ensure proper placement of resources. Placing resources within an organizational structure without a workload analysis could jeopardize the CI function's primary mission, which is to investigate potential criminal violations of the I.R.C.

The CI function reorganized on July 2, 2000, with direct reporting authority to the IRS Commissioner.

On July 2, 2000, the CI function reorganized with the Chief, CI, having direct reporting authority to the IRS Commissioner. The modernized infrastructure is comprised of 5 Headquarters offices and divides field operations into 6 areas with 35 SAC offices that generally parallel the judicial districts. The pre-existing investigative groups were realigned to correlate geographically with the SAC offices. The CI function's field staffing levels were based upon span of control

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An appropriate workload study was not conducted because of limited resources within the newly formed organization.

criteria but did not consider inventory or workload projections.

CI officials advised us that an appropriate workload study was not conducted during the reorganization because of limited resources within the newly formed organization. In our opinion, the CI function needs to conduct a thorough workload analysis to ensure resources are allocated in an appropriate manner to support a functional compliance strategy and to accomplish its tax enforcement mission.

Recommendations

The CI function should ensure resources are properly allocated to support the accomplishment of the CI SPP. Specifically, we recommend:

5. The Office for the Director of Strategy conduct a workload analysis in the 35 functional offices and design a staffing allocation model. In addition, to effectively monitor staffing patterns, we recommend the CI function perform periodic reviews of its inventory to identify any shifts in work or resources within each office.

Management's Response: CI management agreed with our recommendation. The CI function entered into a project agreement with the Office of Program Evaluation and Risk Analysis (OPERA) to develop workload and attrition models. A beta version of the models was completed in May 2001, and a contractor will test and validate the system during the fourth quarter.

6. The Office for the Director of Strategy consider reviewing the entire organization structure after the establishment of a staffing allocation model to ensure the appropriateness of resource allocations.

Management's Response: CI management agreed with our recommendation. The workload model developed by the OPERA will be used to continuously validate current resource distribution; however, due to cost

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considerations, the CI function can only remedy inequities by distributing recently hired special agents.

Conclusion

The CI function needs to develop and communicate a detailed compliance strategy based upon the CI SPP, establish a process to effectively measure resource shifts to investigate legal source tax violations, and establish a methodology for effectively allocating resources.

Without operating within the framework of a detailed compliance strategy and having an effective process for measuring results, the CI function cannot be assured that it is accomplishing its goal of refocusing its resources into legal source investigations.

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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the Criminal Investigation (CI) function's ability to properly refocus resources into legal source tax-related areas. In particular, we evaluated the success of the CI function's Interim Compliance Strategy to commit resources to investigate tax violations involving legal sources of income. We also evaluated the CI function's role in the development and implementation of the Internal Revenue Service's (IRS) National Compliance Strategy and determined whether the CI function's compliance strategy was aligned with the National Compliance Strategy. In order to accomplish our objective, we performed the following audit steps:

- I. To determine whether the CI function's Interim Compliance Strategy successfully committed resources to investigate tax violations involving legal sources of income, we:
 - A. Reviewed the CI function's methodology for measuring the effectiveness of the Interim Compliance Strategy to investigate legal source tax cases.
 1. Analyzed Criminal Investigation Management Information System data to determine trends in case inventories from Fiscal Year (FY) 1999 to FY 2000.
 2. Interviewed CI field personnel based on results of the inventory analysis.
 - B. Determined whether the CI function modified its FY 2001 Interim Compliance Strategy based on its assessment of FY 2000 results and internal and external research.
 - C. Identified efforts to select and develop legal source tax cases that support the Interim Compliance Strategy.
 - D. Reviewed current policy and procedures governing the shift in resources to emphasize the identification of cases involving legal source income.
 - E. Interviewed key CI personnel involved in the development and implementation of the October 1999 Interim Compliance Strategy and reviewed available documentation.
- II. To evaluate the CI function's role in the development and implementation of the National Compliance Strategy, we:

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- A. Determined the methodology for measuring and evaluating the success of the National Compliance Strategy to effectively address accomplishing the CI function's mission.
 - B. Evaluated the CI function's plans for coordination and communication with the operating divisions and other compliance components to develop the National Compliance Strategy that will achieve the highest possible rate of compliance.
 - C. Determined the status of the IRS Compliance Council and the stage of development for the National Compliance Strategy.
 - D. Interviewed key CI personnel associated with the IRS Compliance Council and involved in the development and implementation of the National Compliance Strategy.
- III. To determine whether the CI function's compliance strategy was properly aligned with the National Compliance Strategy, we:
- A. Evaluated whether the CI function's compliance strategy addressed the accomplishment of its tax enforcement mission.
 - B. Evaluated whether the CI function's resources were allocated to effectively accomplish the CI function's compliance strategy.
 - C. Analyzed the CI function's methodology for measuring and evaluating the success of accomplishing the CI function's compliance strategy and ultimately the National Compliance Strategy.
 - D. Interviewed appropriate CI personnel to determine the status of the CI function's compliance strategy.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Director, Strategy CI:S
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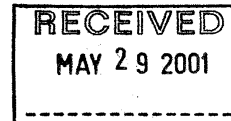
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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



Criminal Investigation

May 29, 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Mark E. Matthews
Mark E. Matthews
Chief, Criminal Investigation

SUBJECT:

Response To Draft Audit Report on Review of the Effectiveness of Criminal Investigation's Strategic Planning Process (Audit #200010036) ECMS IR No. 0104-4VUL9BYC

Thank you for the opportunity to respond to the above draft report, evaluating the effectiveness of Criminal Investigation's (CI) Strategic Planning Process. While I agree with your recommendations, I would like to present some additional information to give a clearer picture of our activities especially in light of the elapsed time between your fieldwork and the report.

I need to clarify our position on your staff's direct access to the Criminal Investigation Management Information System (CIMIS) database. The CIMIS database contains grand jury information and under the Federal Rules of Criminal Procedure, we can only give access to this information to further the criminal investigation of the grand jury. The IRS' Chief Counsel, Criminal Tax (CT) gave an advisory opinion on this issue to your Counsel. Unless CT's opinion changes, we must follow its advice and only provide abstracts of the database containing no grand jury information.

The mission drift documented in the Webster Report occurred over a period of 20 years. It was the result of many factors including a decrease in the number of fraud referrals and the increased demand for our investigative expertise in the war on drugs. Reversing this drift will require sustained efforts throughout IRS (CI and the Operating Divisions) over a period of years. We have started the process by focusing our resources on legal source income cases. In addition, we have worked closely with the Operating Divisions to revitalize the fraud referral program by selecting 64 fraud referral specialists and five managers. We are also removing barriers to the fraud referral program which when combined with an expected increase in audits should greatly increase future fraud referrals.

Criminal Investigation continues to take progressive steps while waiting for the results of the joint initiatives. We have generated a significant amount of publicity in the past six months. The enforcement actions taken in February 2001 involving nationwide

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execution of search warrants on abusive offshore trusts generated publicity in the media. Our Web site features news articles on current compliance challenges. Our field office public information initiative is also generating publicity at the local level. This publicity helps accomplish the Webster report recommendations to:

- (1) Increase public knowledge and respect for our tax deterrence mission through publicized convictions.
- (2) Help special agents see enhanced value for their work in the legal source area.
- (3) Help revenue agents see that CI works and values their referrals.

However, most publicity comes from investigations already in progress. Our challenge is to develop investigations today that will yield the news articles of tomorrow. This is especially challenging due to the low level of fraud referrals and the inefficiency of having special agents develop legal source income investigations. The matter is further complicated because over the past five years, we have lost over 1,000 special agents and replaced less than 30 percent for a net decrease of 700 special agents. We must also keep the active pending inventory of the retiring agents moving forward with a less experienced work force. In addition to working with the Operating Divisions to enhance the fraud referral program, we are also developing our own tax investigations. To do so, we have established Lead Development Centers (LDC), broadened the mission of the Fraud Detection Centers (FDC), established suspicious activity report review teams and other data mining projects.

To determine if we are correcting mission drift, we are using the same workload measures the Webster Report considered. However, direct comparisons are more difficult with the new program definitions. To clearly identify our legal source income cases, we narrowed the definition of tax gap cases to exclude any case where another law enforcement agency participated. This effectively moved a large population of the tax investigations from legal source to illegal source, even though the violation proven was an income tax violation. In addition, many of our illegal source money laundering investigations have a positive influence on tax compliance. For example, in the abusive offshore trust investigations indicted in February, the primary goal was income tax evasion. However, the criminal violations were all money laundering violations.

Another indication that CI continues to move back to legal tax cases is the fact that the percentage of our illegal source cases initiated that contain tax violations has increased from 49 percent in Fiscal Year (FY) 2000 to 57 percent for the same period in 2001.

STRATEGIC PLANNING

The Strategic Planning Process in the IRS has changed significantly since the conclusion of the Webster Report. To move forward on the Webster Report as quickly as possible, we issued the Interim Compliance Strategy (ICS) in the fall of 1999. The ICS provided guidance to our field offices to re-focus their resources on tax-related investigations. The ICS clearly states the role of CI in the overall compliance strategy of the IRS and provides guidance on the cases to be emphasized. The ICS will be valid for the next several years.

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We originally intended to update the ICS yearly. However, during FY2000, IRS instituted a more comprehensive strategic planning process. This process involved a strategic assessment of the environment and establishing formal linkages between the various divisions and functions involved in compliance. The result of this process was the Strategy and Program Plan (SPP) for FY2001 and 2002. It re-emphasized the strategy to re-focus CI's investigative resources on tax-related investigations and provided guidance to the field offices on the types of investigations to be given special emphasis. We widely publicized this document.

Because we built the CI portion of the SPP on the ICS, we did not immediately update or dispose of the ICS. Instead, because the ICS clearly communicates CI's place in the IRS' compliance efforts, we kept it. We plan to update the ICS with the new organizational names, delete references to the cases to be emphasized, and clarify it as the CI Compliance Strategy.

We also plan to work with the Compliance Council to develop detailed work plans to implement the operational strategies contained in the SPP. To relay the results to field offices, I will issue the Annual Compliance Guidance (ACG) after we update the SPP each fiscal year as a result of the Strategic Planning Process. The ACG will clearly communicate to the Special Agents in Charge (SACs) our expectations for their investigative efforts for the coming fiscal year. Because the ACG is tied to the SPP, it will always be current.

RE-FOCUSING INVESTIGATIVE EFFORTS

To measure progress in re-focusing our investigative efforts to tax-related investigations, we use CIMIS, a comprehensive database of CI's investigative efforts, which allows us to track cases initiated by program area, the amount of time charged to each program, and other process statistics. You questioned whether the diagnostic indicators from CIMIS accurately reflect our investigative efforts because of the upward swing of indicators in three specific field offices. I believe these offices are effectively re-focusing efforts consistent with the CI compliance strategy. In each of these field offices, the SACs and their predecessors had re-emphasized tax-related investigations and aggressively pursued legal source income program cases. The upward swing in legal source income investigations is a direct result of these actions.

The SACs and the Director Field Operations (DFO) mentioned in the draft report were new to their assignments. They came to their new assignments and built upon the foundation set in place by their predecessors. I disagree with removing them from the national calculations solely because they succeeded to a dramatic degree. I have instead used them as examples of best practices for other field offices to emulate. I hope to replicate their success throughout our organization.

Further, the auditors recalculated the diagnostic indicators after removing the three field offices. However, they made no attempt to recognize the impact of the reduction in the size of the special agent work force. As mentioned earlier, the number of special agents decreased from 3,400 in January 1996 to the current level of 2,700. This accounts for a significant amount of the decrease in cases initiated, especially when you

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consider the work-in-process inventory of retiring agents was assumed by the remaining work force.

To strengthen our use of current diagnostic tools, senior analysts in the Planning & Strategy Section review the CIMIS data each month for the 35 field offices. They follow up on trends with the DFOs and the SACs. We added this procedure to the management oversight provided by the DFOs and the Review and Program Evaluation Section in the peer review program. I believe this monthly analysis of the diagnostic tools allows us to effectively monitor the efforts to re-focus our investigative resources.

RESOURCE ALLOCATION

Finally, I would like to clarify CI's efforts in resource allocation. Up until July 2, 2000, CI used a four-part model heavily weighted toward legal source income cases. This model used per capita income, direct Examination Full Time Equivalents (FTEs), population, and total crimes to develop the CI Graded Authorized Staffing Pattern (GASP). The GASP became the foundation for the Modernization blueprint.

Realizing the potential double weighting between population and total crimes, CI worked unsuccessfully with National Office Research for almost two years to develop a new model. In November 2000, we began working with the Office of Program Evaluation and Risk Analysis (OPERA) to explore alternatives. We established a project agreement in January 2001. Beta testing of two models is scheduled to begin in May 2001. One model will forecast workload, while the second model will forecast attrition. We will develop a third model to cover narcotics resources received through reimbursable agreement with the Department of the Treasury. We hope these models will help us more effectively place investigative resources in the most appropriate geographical location.

Meanwhile, we are doing extensive research on workload and attrition to place recently hired special agents. We are concentrating on major metropolitan offices, avoiding any post-of-duty without a supervisory special agent, and including historical data on legal source income case workload. Because of the cost of relocating incumbent special agents, we are shifting resources through the assignment of recently hired and trained special agents.

My comments on the specific recommendations in this report are as follows:

RECOMMENDATION NO. 1

The Office of the Director of Strategy develop a detailed compliance strategy in alignment with the CI SPP.

ASSESSMENTS OF CAUSE (S)

I agree CI did not develop and communicate a detailed compliance strategy in alignment with the SPP. The use of the strategic planning process was implemented for FY 2001 and only required the development of the SPP. Criminal Investigation complied with all strategic planning guidelines. However, our experiences this fiscal year have shown we need to take the strategic planning process one step further by issuing the Annual Compliance Guidance. This will provide guidance tailored for the

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use of the CI SACs, LDCs and FDCs. Since we are in the third quarter of the fiscal year and the Interim Compliance Strategy and the SPP are in place, we will issue the ACG with FY 2002.

CORRECTIVE ACTION (S)

Criminal Investigation will issue the ACG on an annual basis beginning with FY 2002.

IMPLEMENTATION DATE

October 1, 2001

RESPONSIBLE OFFICIAL (S)

Director, Strategy

CORRECTIVE ACTION (S) MONITORING PLAN

The Internal Revenue Manual (IRM) will require the issuance of the ACG by October 1 of each fiscal year.

RECOMMENDATION NO. 2

The Office of the Director of Strategy should communicate the detailed compliance strategy in a form that will expedite the process of informing the CI personnel of the intent and direction of the organization.

ASSESSMENT OF CAUSE (S)

Criminal Investigation, in conformance with the IRS strategic planning process, developed an SPP for FY 2001. Additional, more explicit guidance would assist the field offices, LDCs, and FDCs in meeting CI's program goals.

CORRECTIVE ACTION (S)

Criminal Investigation will issue the ACG in support of the SPP by October 1 of each fiscal year. We will distribute and discuss the ACG at the bi-annual SAC meetings, post it on the CI homepage, and announce it to all CI employees on the weekly CI Bulletin.

IMPLEMENTATION DATE

October 1, 2001

RESPONSIBLE OFFICIAL (S)

Director, Strategy

Director, Communications and Education

CORRECTIVE ACTION (S) MONITORING PLAN

The IRM will require the issuance and communication of the ACG by October 1 of each fiscal year.

RECOMMENDATION NO. 3

The Office of the Director of Strategy should continuously monitor CIMIS information to identify trends in inventory over some specified period of time. The results of the CIMIS data analysis should be used to identify offices for inquiry to determine the reasons for any unusual shifts in inventory.

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ASSESSMENT OF CAUSE (S)

Criminal Investigation was unable to closely monitor the CIMIS data during the audit period because the Planning & Strategy Section (PS) was in the process of staffing-up to the redesign blueprint. Since the conclusion of the fieldwork, PS has been fully staffed. A senior program analyst is assigned to monitor to the CIMIS data on a monthly basis and initiates follow-up telephone inquiries where necessary.

CORRECTIVE ACTION (S)

No additional actions are required since PS is performing this function now.

IMPLEMENTATION DATE

None

RESPONSIBLE OFFICIAL (S)

None

CORRECTIVE ACTION (S) MONITORING PLAN

None

RECOMMENDATION NO. 4

The Office of the Director of Strategy should periodically assess the effectiveness of the diagnostic tools and make appropriate adjustments when necessary to ensure that they are meeting CI management's expectations.

ASSESSMENT OF CAUSE (S)

Criminal Investigation was using national statistics from the CIMIS database that could be skewed by dramatic changes in just a few field offices. Criminal Investigation now reviews the diagnostic indicators on a field office basis in addition to the national statistics to identify individual trends and focus management attention where necessary.

CORRECTIVE ACTION (S)

The Directors of PS and Research will meet with their respective staffs each fiscal year to review the final results for the preceding fiscal year and assess the appropriateness of the diagnostic indicators used during the fiscal year. This will occur no later than the end of the first quarter of the succeeding fiscal year.

IMPLEMENTATION DATE

October 1, 2001

RESPONSIBLE OFFICIAL (S)

Director, Strategy

CORRECTIVE ACTION (S) MONITORING PLAN

The Directors of PS and Research will certify in writing by January 1 of each year, the appropriateness of the diagnostic indicators or recommend corrective action.

RECOMMENDATION NO. 5

The Office of the Director of Strategy should conduct a workload analysis in the 35 field offices and design a staffing allocation model. In addition, to effectively monitor staffing

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patterns, we recommend the CI function perform periodic reviews of its inventory to identify any shifts in work or resources with each office.

ASSESSMENT OF CAUSE (S)

Criminal Investigation was unable to perform a workload analysis during the redesign process due to time and staffing limitations. Since the completion of the fieldwork, CI has entered into a project agreement with OPERA to develop a workload model and an attrition model. Criminal Investigation received the beta version of the models on May 17 and began testing. MITRE will test and validate the system during the fourth quarter. We plan to implement the system during the first quarter of FY 2002.

CORRECTIVE ACTION (S)

No additional actions are required since we are testing the beta versions of the model and will implement it by October 1, 2001.

IMPLEMENTATION DATE

October 1, 2001

RESPONSIBLE OFFICIAL (S)

Director, Strategy

CORRECTIVE ACTION (S) MONITORING PLAN

The Director, Strategy will certify full implementation to the Chief, CI.

RECOMMENDATION NO. 6

The Office of the Director of Strategy should consider reviewing the entire organization structure after the establishment of a staffing allocation model to ensure the appropriateness of resource allocations.

ASSESSMENT OF CAUSE (S)

Criminal Investigation was unable to perform a workload analysis during the redesign process due to time and staffing limitations. Field office boundaries were set by judicial districts and span of control.

CORRECTIVE ACTION (S)

Criminal Investigation will use the workload model developed by OPERA to continuously validate its current resource distribution. However, due to cost considerations, we can only remedy inequities by distributing recently hired special agents. This recommendation will be implemented by the process supporting Recommendation 5 and will require no separate action.

IMPLEMENTATION DATE

None

RESPONSIBLE OFFICIAL (S)

None

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CORRECTIVE ACTION (S) MONITORING PLAN

None since this will be part of the process supporting Recommendation 5.

If you have any questions, please contact me at (202) 622-3200, or a member of your staff may contact Tyrone Barney, Director of Strategy, at (202) 622-5876.